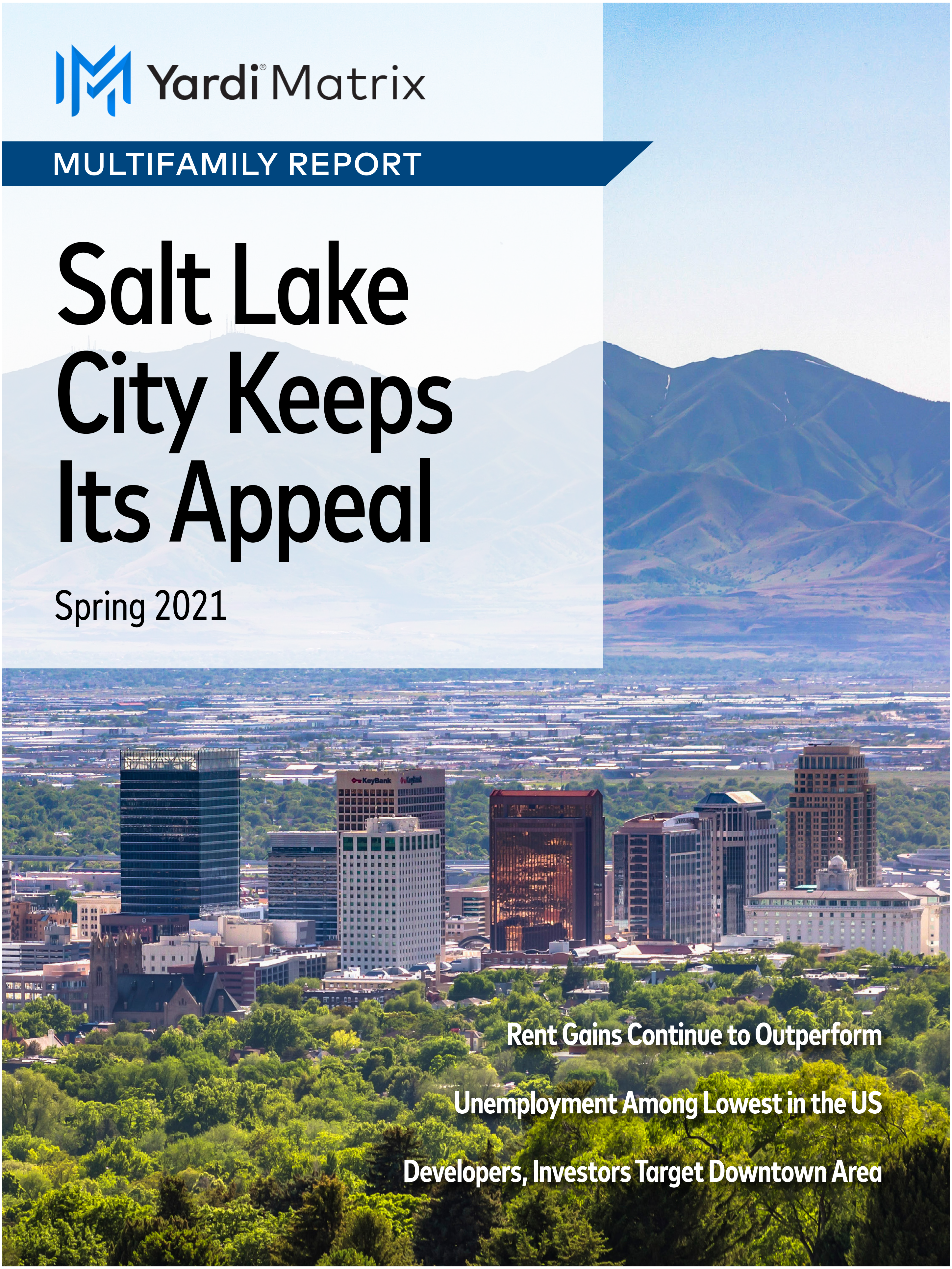
Yardi® Matrix

MULTIFAMILY REPORT

Salt Lake City Keeps Its Appeal

Spring 2021



Rent Gains Continue to Outperform

Unemployment Among Lowest in the US

Developers, Investors Target Downtown Area

Yardi Matrix

Wasatch Front Up for Fast-Paced Recovery

Backed by a diverse economy, a highly skilled workforce and relative affordability, Salt Lake City has proved highly resilient in the face of adversity. At 0.4% on a trailing three-month basis through February, rate growth has been positive for the ninth consecutive month. Average rents clocked in at $1,249 in February, $150 below the national figure.

At 3.5% as of January, the unemployment rate in Salt Lake City was among the lowest in the country. In 2020, trade, transportation and utilities added 13,700 positions—a 5.2% improvement—while the government and construction sectors added 3,500 jobs and 3,300 jobs, respectively. Overall, employment contracted by only 1.1%, well above the national rate, mainly due to Salt Lake City's strong economy preceding the pandemic. Many large employers—including Amazon, eBay and Adobe—are establishing roots in Utah, taking advantage of the highly educated employment base, low cost of doing business and ease of air travel. Due to Salt Lake City's location, the industrial sector has also been recording strong growth.

Over the first two months of 2021, developers completed 254 units and investors closed on only three significant deals. Despite the slow start, Salt Lake City is positioned to follow up on its swift rebound, as multifamily demand remains healthy.

Market Analysis | Spring 2021

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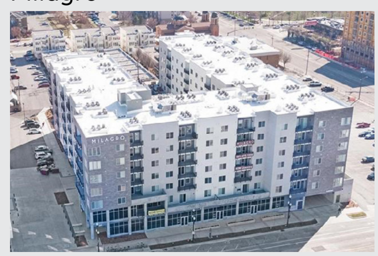
Recent Salt Lake City Transactions

Icon 9700

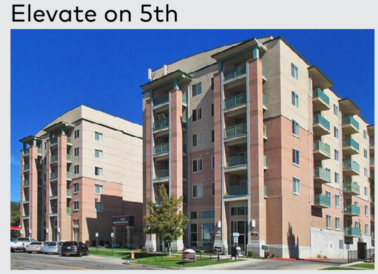
City: Sandy, Utah
Buyer: Starwood Capital Group
Purchase Price: $77 MM
Price per Unit: $292,566

Milagro



City: Salt Lake City
Buyer: Graycliff Capital
Purchase Price: $68 MM
Price per Unit: $372,313

Elevate on 5th



City: Salt Lake City
Buyer: Auctus Capital Partners
Purchase Price: $57 MM
Price per Unit: $238,605

Aspen Cove Townhomes

City: Salt Lake City
Buyer: Laguna Point Properties
Purchase Price: $17 MM
Price per Unit: $226,311

RENT TRENDS

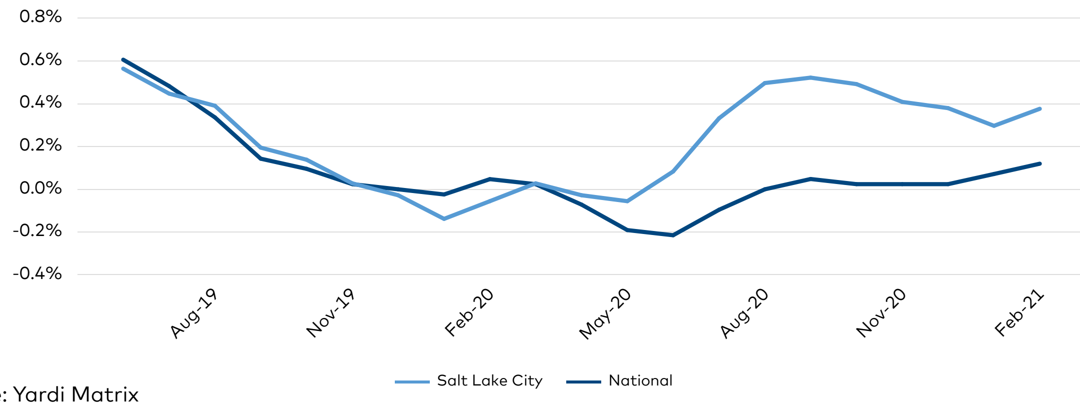
- Metro Salt Lake City rents improved by 0.4% on a trailing three-month (T3) basis through February, 30 basis points above the national rate. The metro's $1,249 average remained below the $1,399 U.S. figure. Year-over-year, Salt Lake City rates were up 3.7%. This growth was no small feat, considering the economic climate.

- With construction lagging demand over the past decade, rents recorded only a short-lived, pandemic-induced crunch in the second quarter of 2020, with rates continuing to improve since June. Lifestyle rents held up better than working-class Renter-by-Necessity figures. On a T3 basis, rates in upscale assets were up 0.5% to an average of $1,377, while Renter-by-Necessity rents grew by 0.3% to $1,164.

- With an easy commute to Salt Lake City, northern submarket Layton saw the largest year-over-year increase through February: 11.9% to $1,188. However, Provo—known for its higher-paying tech jobs—remained the metro's most expensive submarket, with the average up 2.0%, to $1,451.

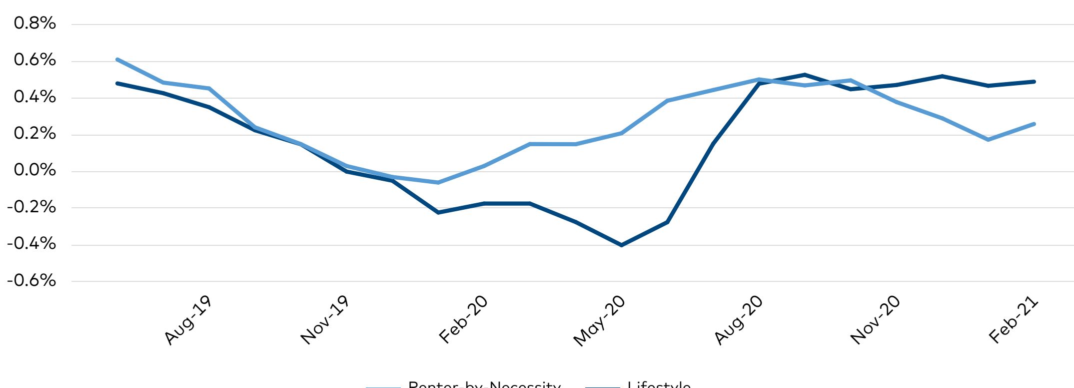
- New unemployment claims in Utah have dropped significantly in the past few months, according to the state's department of workforce services. In mid-March, residents short on rent started applying online to access a new $215 million infusion of federal rent relief, which covers not only upcoming rent but also past due payments and utility bills.

Salt Lake City vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Salt Lake City Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Salt Lake City began 2021 with a 3.5% unemployment rate, down from the 11.2% all-time high of April 2020. Not surprisingly, all other Utah MSAs clocked in similarly tight unemployment rates: Logan (2.5%), Provo-Orem (2.9%), Ogden-Clearfield (3.2%) and St. George (3.9%).

- Mirroring nationwide trends, leisure and hospitality took the hardest hit, losing 15,300 jobs last year. However, seven out of 10 employment sectors recorded gains.

- COVID-19's effect on air traffic shortened the timeline of the $4.1 billion revamp of the Salt Lake International Airport. The project is now slated for completion in 2024 instead of 2027.

- The metro's industrial sector has also been expanding. Amazon has established a strong local footprint, with the giant most recently opening a 1.3 million-square-foot facility in West Jordan. Meanwhile, the Silicon Slopes and Provo-Orem are attracting a host of tech companies—such as Qualtrics, Vivint and Smart Citizen—due to their young, highly skilled workforce. In the Milken Institute's 2021 ranking of U.S. cities, Provo-Orem is presented as a recipient of the tech sector's out-migration from expensive coastal cities such as San Jose, despite being a relatively new innovation hub.

Salt Lake City Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	275	19.7%
90	Government	224	16.1%
15	Mining, Logging and Construction	102	7.3%
30	Manufacturing	131	9.4%
80	Other Services	39	2.8%
65	Education and Health Services	191	13.7%
55	Financial Activities	85	6.1%
50	Information	36	2.6%
60	Professional and Business Services	204	14.6%
70	Leisure and Hospitality	108	7.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Salt Lake City's population has grown during the past decade. In 2019, the metro gained 10,156 residents, up 0.8%.

- At 17.6%, Utah had the highest population growth rate in the country over the past 10 years, according to 2020 U.S. Census Bureau estimates.

Salt Lake City vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Salt Lake City Metro	1,185,219	1,205,238	1,222,540	1,232,696

Sources: U.S. Census, Moody's Analytics

SUPPLY

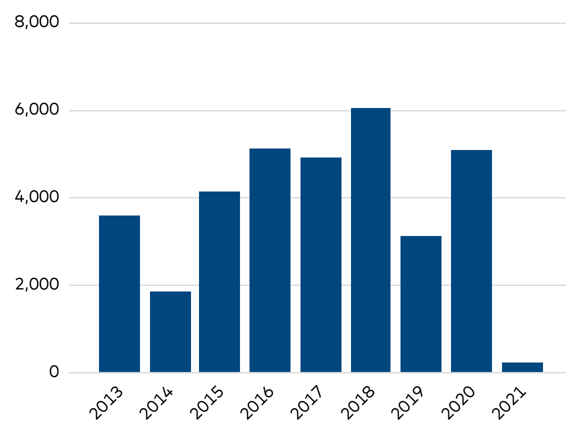
- The metro had 11,521 apartments under construction as of February, with the bulk of them catering to high-income residents. With Salt Lake City among the main beneficiaries of the pandemic-induced out-migration from high-cost gateway markets, developers were encouraged to maintain their focus on upscale product. Of all the units underway as of February, we expect nearly 4,400 to come online this year.

- Developers added 254 units to the metro's stock over the first two months of the year, significantly less than the 1,376 apartments that were delivered over the same interval in 2020. The slowdown follows several years of relatively steady completions, averaging 4,753 units per year between 2015 and 2020.

- The occupancy rate in stabilized properties across the Wasatch Front has been on an upward trajectory in the past year, despite coronavirus-mandated hardships. As of January, occupancy was at 96.1%, up from 95.2% in April 2020, the first month when the economy felt the full impact of the global health crisis.

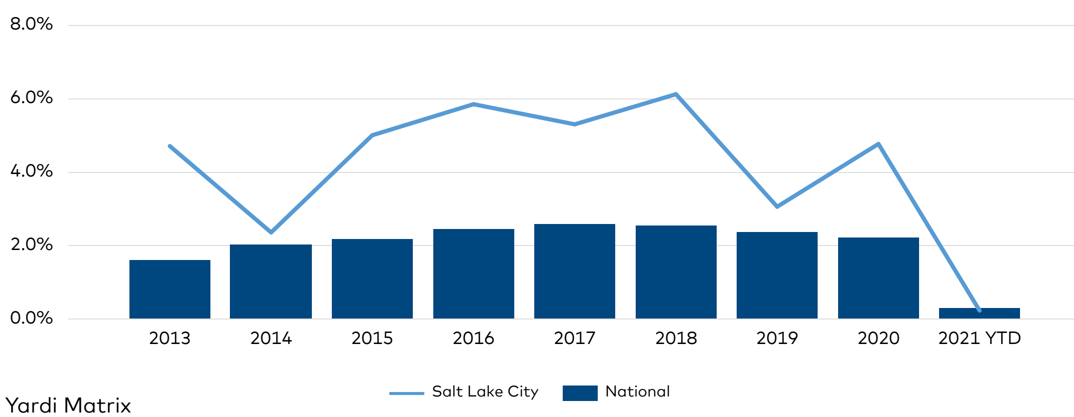
- Salt Lake City's downtown area continues to be a magnet for investors and developers alike. The submarket accounts for almost one-third of the total construction pipeline, including the metro's top three largest projects underway: PEG Development's 662-unit SevenO2 Main, The Ritchie Group's 650-unit Block 67 and Bridge Investment Group's 580-unit Post House.

Salt Lake City Completions (as of February 2021)



Source: Yardi Matrix

Salt Lake City vs. National Completions as a Percentage of Total Stock (as of February 2021)

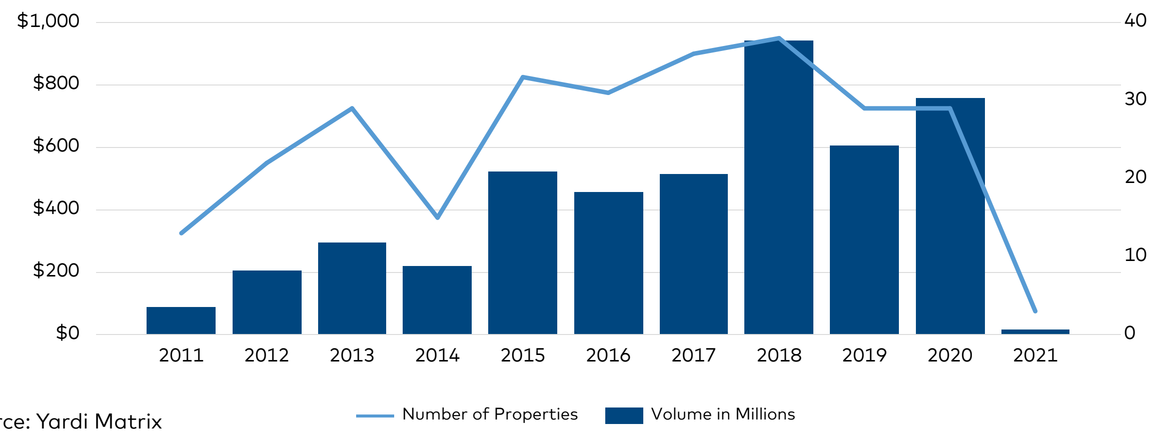


Source: Yardi Matrix

TRANSACTIONS

- Only three rental assets of more than 50 units traded in the first two months of 2021. This followed last year's $759 million—the metro's second-best year of the cycle and a notable performance considering the overall struggles of 2020. Salt Lake City's lower cost of living continued to help demand, with work-from-home policies encouraging West Coast workers to relocate, a boost that accelerated already existing trends while also stimulating investor interest. This, in turn, has helped the metro's fundamentals enter 2021 nearly unscathed.
- Although most assets trading in 2020 were in the RBN segment, the average per-unit price surged to a cycle high of $204,182. In the 12 months ending in February, only three submarkets surpassed the $100 million mark for deal volume. Some of the largest transactions closed in the second half of 2020, as many investors postponed deals in the spring due to COVID-19-induced lockdowns and overall volatility.

Salt Lake City Sales Volume and Number of Properties Sold (as of February 2021)



Source: Yardi Matrix

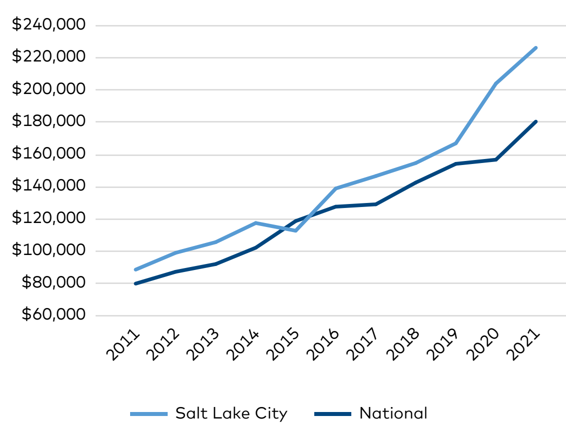
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Salt Lake City-Downtown	125
Sandy	112
Salt Lake City-West Salt Lake	110
North Salt Lake/Bountiful	81
West Jordan	77
Provo	23
Salt Lake City-Northwest	17

Source: Yardi Matrix

[1] From March 2020 to February 2021

Salt Lake City vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

Brought to you by:

Why Pegasus Residential Chose to Go West

By Laura Calugar

Multifamily owners and operators have been put to the test like never before since the onset of the pandemic. However, some players saw opportunity where most saw uncertainty. Pegasus Residential announced it would expand into new markets like Denver, Phoenix and Salt Lake City. Here's what makes these Western markets so appealing, according to Vice President of Business Development Laurie Lyons.

Why did you pick these particular markets to expand in?

People want to live in these metros and their populations are growing. Rents are increasing and developers are building new properties. We've had great success with lease-ups and lease-ups are definitely one of our focal points at Pegasus. So, we believe we can be very successful in these markets. Secondly, we have existing owner clients that are seeking opportunities in these markets and we want to be able to go there with them.

Why is this the right time to expand?

We feel good about the long-term health of the Denver, Phoenix and Salt Lake City markets, and we feel great about the health of our company. We have long been committed to embracing technology and innovation—we had self-guided tours in place before the pandemic, for example—and this makes us nimble and ready to navigate any market condition.

We believe this is a time when other operators might not be ready to enter new markets and so, in many ways, it makes sense to expand now, when other companies might not be able to do so.

Are you planning to expand your operations in other Western metros as well?

We're focusing on Denver, Phoenix and Salt Lake City, and we're not considering any other new Western metros at this time. We already have a presence in Texas, which has always been and always will be a renter's haven. If you look in the Northwest, you see rent controls and restrictions. So that's kind of slowed new development.

And then California is a really unique and challenging market. It's definitely its own kind of thing. If you're going to be in California, you need to have a big presence there. As for Las Vegas, the rents are pretty low there, so it makes it difficult to develop new properties and lease-ups are big for us.

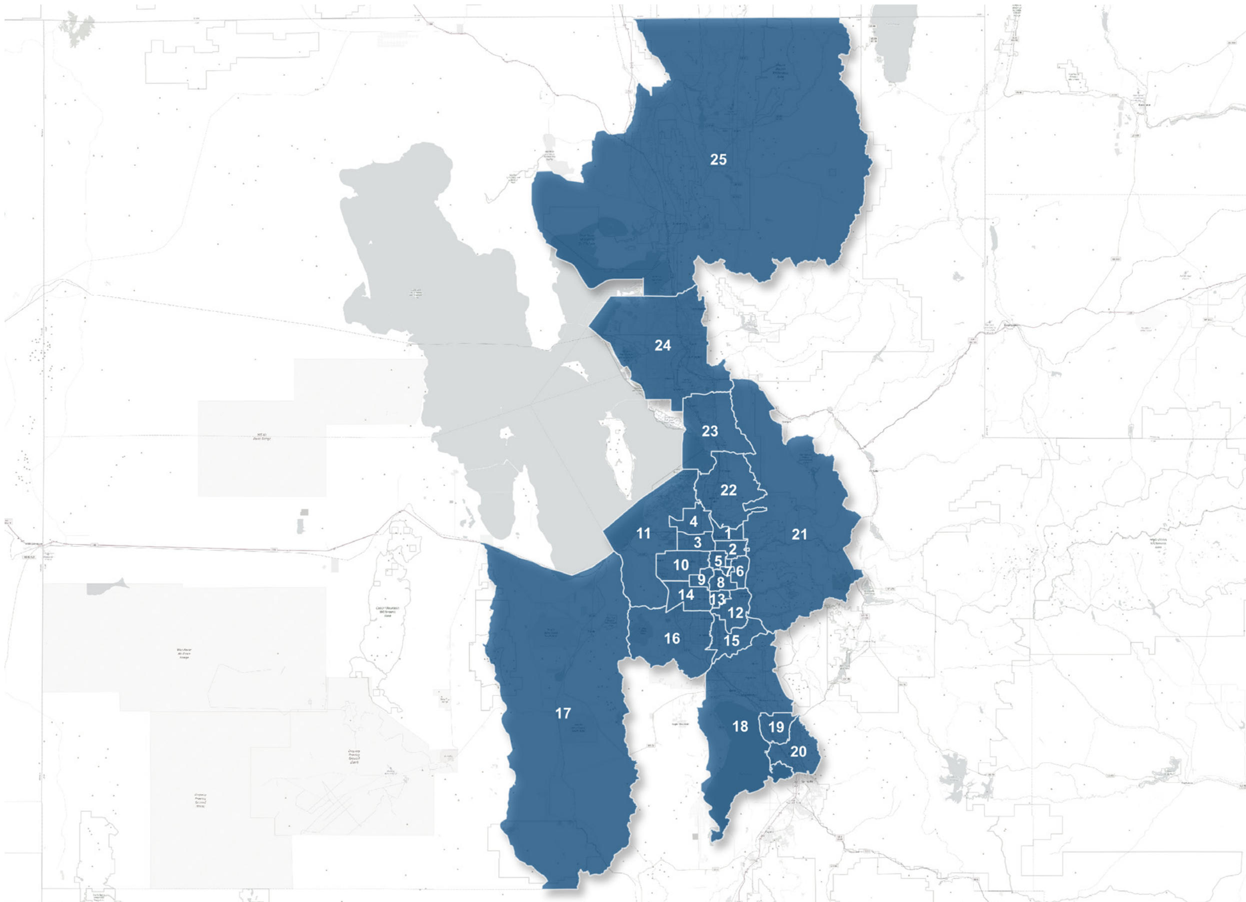
What are your predictions for the multifamily industry this year?

Assuming the vaccinations are rolled out and things go well with that, I think life is going to begin returning to normal.

There should be strong demand for all types of rental housing because during and after an economic crisis and a period of high unemployment, many people aren't positioned to buy a home. Their savings have been depleted. We are more of a renter's nation right now.

(Read the complete interview on multihousingnews.com.)

SALT LAKE CITY SUBMARKETS



Area No.	Submarket
1	Salt Lake City–Downtown
2	Salt Lake City–Central City
3	Salt Lake City–West Salt Lake
4	Salt Lake City–Northwest
5	South Salt Lake
6	Holladay
7	Millcreek
8	Murray
9	Taylorsville
10	West Valley City
11	Magna
12	Sandy
13	Midvale

Area No.	Submarket
14	West Jordan
15	Draper
16	South Jordan/Herriman
17	Tooele
18	Pleasant Grove/Lehi
19	Orem
20	Provo
21	Park City
22	North Salt Lake/Bountiful
23	Layton
24	Ogden/Clearfield
25	Logan

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also December span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which December barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, December extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.